One Big Beautiful Bill Summary Overview

The One Big Beautiful Bill Act (OBBBA)[1], signed into law on July 4, 2025, is comprehensive legislation that impacts certain provisions established under the Infrastructure Investment and Jobs Act (IIJA) of 2021 and the Inflation Reduction Act (IRA) of 2022. Also referred to as H.R. 1 or BBB, the bill was enacted through the reconciliation process, a legislative procedure primarily used for tax and revenue measures. The law aims to make certain tax provisions permanent while modifying or rescinding others, with significant implications for local governments, municipal utilities, and other public-sector entities. As municipalities engage in capital planning, infrastructure development, and community projects, understanding these changes is crucial for planning and compliance. This summary provides an overview of key takeaways, implementation timelines, and recent changes to tax credits, including provisions related to Direct Pay, that may be most related to local governments. However, it is strongly recommended that individual municipalities analyze specific changes and potential impacts that may factor into their planning and funding needs, etc.

Key OBBBA Takeaways for Municipalities

OBBBA introduces notable changes to funding availability, tax credits, and compliance requirements that affect local government entities. These changes require adjustments in financial planning, regulatory adherence, and project delivery strategies. Key takeaways for municipalities to consider include:

» **Preservation of Direct (Elective) Pay:** OBBBA preserves the Direct Pay provision, allowing entities without federal tax liability to continue receiving direct cash payments instead of tax credits, even as it accelerates phase-outs and eliminates several tax credits, particularly clean energy incentives, while imposing additional foreign entity restrictions.

» **Impact on Clean Vehicle and Infrastructure Credits:** The New Clean Vehicle Credit, Used Clean Vehicle Credit, and Commercial Clean Vehicle Credit will be eliminated September 30, 2025. The Alternative Fuel Infrastructure Tax Credit for Electric Vehicle (EV) charging infrastructure will end on June 30, 2026. Municipalities looking to use these credits through Direct Pay must complete vehicle purchases and infrastructure projects prior to these deadlines.

» **Adjustments to ITC/PTC Programs:** The Investment Tax Credit (ITC) and Production Tax Credit (PTC) for wind and solar projects have accelerated phase-outs, requiring construction to begin by July 4, 2026, and projects starting after that date must be placed in service by December 31, 2027, to remain eligible. Guidance has been released by the Internal Revenue Service (IRS) to ensure beginning of construction timeline compliance, outlining the need to meet a rigorous Physical Work Test to prove construction began.

» **Municipal Bonds and Private Activity Bonds:** OBBBA secures municipal and private activity bond financing as a tool for local governments to meet their capital needs effectively by maintaining the tax-exempt status of municipal bonds, including both traditional governmental bonds and qualified private activity bonds.

[1] One Big Beautiful Bill Act, accessible at https://www.congress.gov/bill/119th-congress/house-bill/1/text

- **Opportunity Zone Changes**: The Opportunity Zone program is a tax incentive designed to spur investment and economic development in low-income census tracts. OBBBA makes the Opportunity Zones permanent, expanding the Opportunity Zone framework aim to improve transparency and direct greater benefit to underserved communities, potentially increasing the viability of projects in these areas with improved accountability and alignment with public goals.
- **Increased Conservation and Watershed Funding:** OBBBA boosts funding for agricultural conservation programs like Agricultural Conservation Easement Program, Environmental Quality Incentives Program, Conservation Stewardship Program, and the Regional Conservation Partnership Program, with funding steadily increasing through 2031. It also raises the annual budget for the Watershed Protection and Flood Prevention Operations Program to $150 million, supporting important flood control and watershed rehabilitation projects. OBBBA also extends support for the Grassroots Source Water Protection Program, helping protect drinking water sources in rural and agricultural communities.
- **Rescission of Unobligated Funds:** Several energy, environmental justice, and transportation-related grant programs funded by IRA and IIJA, such as the Neighborhood Access and Equity grant program, Climate Pollution Reduction Grants, and Environmental Justice Block Grants, had unobligated funds rescinded. This means any funds not yet legally committed to a recipient or project are taken back by the Federal awarding agency, eliminating both unawarded funds and the possibility of new funding cycles for these programs as they currently stand. Municipalities that had anticipated using these sources for capital projects or programmatic expansion may need to re-evaluate plans and explore alternative funding options. ARPA SLFRF funds were not affected by these rescissions.

Effective Dates and Phase-In Timelines

The changes enacted under OBBBA will roll out over a series of dates, with each provision following its own timeline depending on the type of credit, funding source, or program involved. Some adjustments take effect immediately, while others include phase-ins, sunsets, or construction start deadlines that impact eligibility. Understanding these timelines is essential for municipalities planning long-term projects or relying on federal funding.

The table below outlines the key effective dates and milestones associated with major changes under OBBBA.

Effective Date	Policy/Program Change	Change Details & Municipal Implications
July 4, 2025	Direct Pay and Transferability Preserved, Rescission of Unobligated Funds Takes Effect	Direct Pay and Transferability are preserved by OBBBA, but municipalities now have a limited timeline to utilize these in regard to applicable clean energy tax credits, with restrictions and phase-outs taking effect starting July 4, 2025. OBBBA rescinds substantial unobligated funding from key IRA and IIJA clean energy, environmental, and infrastructure programs as of July 4, 2025.

September 30, 2025	Clean Vehicle Credit Eliminated	The New Clean Vehicle Credit, Used Clean Vehicle Credit, and Commercial Clean Vehicle Credit are eliminated for vehicles acquired after September 30, 2025. If municipalities are seeking to use these credits, they must do so before the deadline.
June 30, 2026	Alternative Fuel Credit Eliminated	The Alternative Fuel Infrastructure Tax Credit remains available but only for charging equipment placed in service by June 30, 2026. After this date, the credit phases out and is no longer available for infrastructure installations.
January 1, 2026 – December 31, 2027	Some Technology-Neutral Clean Energy Credits Phase-Out	Phase-out of technology-neutral clean electricity tax credits (§45Y PTC and §48E ITC) begins, requiring projects to start construction before July 4, 2026, to qualify. Projects started in 2027 can still get the full credit, but only if they meet the official "beginning of construction" requirements. The credits expire December 31, 2027 unless those rules are met. Documenting timely construction start is essential for eligibility - further information is available here.
Dates TBD (2025–2026)	Opportunity Zone Reform	As discussed above, Opportunity Zones will be altered, with likely changes including increased transparency and reporting requirements and loss of eligibility for some zones. The Treasury and IRS have been directed to offer more guidance in August 2025 (though they may take longer).

Direct Pay and Tax Credit Program Changes

OBBBA included significant amendments to the Direct Pay provisions established under the IRA. These credits, also referred to as "elective pay," are an option funded through the IRA and provided by the IRS made available to tax-exempt entities, such as States, municipalities, non-profits, and other tax-exempt organizations that replaces tax credits with direct cost subsidy funds from the Federal government. These provisions in the bill narrow eligibility for Direct Pay by limiting credit types eligible for refundability, such as Clean Energy Production and Investments (§48E and §45Y), Electric Vehicle (§45W) and Electric Vehicle Charging (§30C). These credits can still provide direct cash benefits for eligible tax-exempt entities when they develop or invest in qualifying projects, within additional constraints and timeline changes.

Prohibited Foreign Entity (PFE) requirements outline due diligence expectations for ongoing and upcoming projects under §45Y and §48E (Solar and Wind) projects, requiring entities to carefully review and vet contractors and suppliers, and meet other compliance reporting requirements to avoid disqualification from receiving federal funding incentives. The table below outlines key effective dates for Direct Pay projects including the new PFE provisions.

Tax Credits	Completed Projects	Present Projects	Future Projects
Electric Vehicle (§45W)	If EV is acquired before September 30, 2025, then it is eligible for credit if filed by the deadline*.	If EV is acquired before September 30, 2025, then it is eligible for credit if filed by the deadline*.	If EV is acquired after September 30, 2025, then it is not eligible for credit.
Electric Vehicle Charging (§30C)	If the project is placed into service before June 30, 2026, it is eligible for credit if filed by the deadline*.	If the project is placed into service before June 30, 2026, it is eligible for credit if filed by the deadline*.	If the project is placed into service after June 30, 2026, then it is not eligible for credit.
Wind and Solar (§48E and §45Y)	If construction began before December 31, 2025, it is eligible for credit and it does not generally have to comply with PFE restrictions**.	If construction began before December 31, 2025, it does not have to comply with PFE restrictions** to be eligible for the credit.	If construction began from January 1, 2026, through July 4, 2026, it must comply with PFE restrictions** to be eligible for credit.

*The deadline for these credits is largely determined by an entity's tax year. The initial tax filing deadline is 4.5 months after the end of the tax year in which the applicable project was completed. An entity may extend this deadline for a total of 10.5 months if they file for a 6-month extension by the initial filing deadline by using Form 8868.

**Prohibited Foreign Entity (PFE) rules only affect certain credits, such as 48E and 45Y (Wind and Solar). For state and local governments, the presence of a PFE in any tier of the project or supply chain may lead to full disqualification or recapture of federal funds.[2]

Guidance on Direct Pay is being released, with initial updates issued on August 18. Further clarifications from the Treasury and the IRS are expected in the near future. For municipalities seeking practical resources, National League of Cities and MTAP have published guidance to help navigate the new Direct Pay provisions, supporting effective implementation and compliance at the municipal level.

Tracking Ongoing OBBBA Guidance

To track ongoing changes under Direct Pay and other clean energy tax credit programs affected by OBBBA, municipalities and project partners should closely monitor forthcoming guidance from the U.S. Department of the Treasury and the IRS.

The Maryland Technical Assistance Program will notify municipalities as further guidance is released. Municipalities are welcome to utilize MTAP's Question Portal as they face these changes, and the team looks forward to supporting them as they navigate the evolving landscape under OBBBA.

[2] Table adapted from Lawyers for Good Government Brief: Updates to Certain Elective Pay Eligible Credits Under H.R. 1, accessible at https://l4gg.docsend.com/view/qh2ckk3tzugjc3kp